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MEMORANDUM FOR: Director of Central Intelligence

For possible use in your meeting with  
Secretary Shultz.

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C/NIC

Attachment

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The Iranian Threat to American Interests in the Persian Gulf

The consolidation of power in Teheran by the Islamic Republican Party and its apparent intent to spread its Islamic revolution to its Arab neighbors could inflict grave damage on American interests and those of its allies. What the IRP seems to intend and may achieve -- absent adequate countervailing power -- is not only the replacement of Saddam Hussein but also the Baathist regime by a fundamentalist Islamic one. This aim is to be achieved by the defeat of Iraqi forces defending Basra and, if this is not sufficient to bring about the desired change in Baghdad, then military conquest of at least the southern, Shia populated part of Iraq will presumably be sought. It may also be an IRP aim to occupy this region, including the Shia holy cities of Karbala and Najaf. Further possible aims include arousing the Shia populations of Bahrain, Kuwait, and other Gulf states and the replacement of these regimes with ones more compatible with Teheran. More broadly it appears to seek dominance over the Persian Gulf region.

The importance of the Gulf region to the US resides largely in its oil. It contains about 35% of known world oil reserves, 35% of the non-Communist world's production capacity and 25% of current output. The power to interrupt the supply of this flow entails the power to wreak havoc on the economies of the West. Even given today's oil "glut", the interruption of oil supplies from the Gulf area -- allowing for the use of all shut-in production capacity elsewhere in the world -- would reduce the non-Communist world oil supply by about 25%. Such an interruption, if prolonged for months, would result in a fall in

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worldwide economic output comparable to the Great Depression of the 1930s in the US. More broadly, whoever is in control of the Gulf's 12 million barrels a day of current output (20 million barrels a day of capacity) and 500 billion barrels of reserves is in a position to have a very large political as well as economic influence on the world. Iran's, Iraq's and Kuwait's oil supply alone comprises 10% of current non-Communist world production and 18% of potential production.

Could Iran achieve such a position of influence? In the absence of outside military support for Kuwait and other Gulf states, an Iranian defeat of Iraq would set into motion forces for accommodation with anti-Western goals -- whether by overthrow of existing regimes or accommodation by them. It is imaginable that it could help bring into power fundamentalist regimes of such anti-Western animosity, hostility against neighbors, or internal incoherence that oil supplies could be seriously disrupted. For example, the coming to power of the mullahs in Iran followed by the Iran-Iraq war caused combined oil production from Iran and Iraq to decline from 8 MMBD in 1978 to a little over 2 MMBD in 1981. The world economy would have been even more damaged by this decline than it was but for the ability and willingness of Saudi Arabia to increase production by several million barrels a day. But now Saudi Arabia is in the "target zone."

Victory by Iran in Iraq would not only enable its forces easily to take Kuwait and its large oil facilities, again in the absence of outside support, but also to exert influence without an outright invasion of Saudi Arabia. If Iraq's Shias come to life politically in response to Iran's success, there is also likely to be a reaction among Kuwait's minority (250,000 out of a 5.5 million total) Shia

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population. Moreover, the Shia population of Saudi Arabia is concentrated nearby -- in the main oil-producing areas.

Instability might also, or instead, proceed via other paths. Although President Assad's, like Saddam Hussein's, hold on power is sustained through tight internal controls and brutal repression, Assad's power has been threatened by Sunni fundamentalists (the Moslem Brotherhood). Despite the recent brutal crushing of their revolt in Hama, if Saddam Hussein were to fall, and, especially if the Baathist regime in Baghdad were to be thrown out, the example could give heart to those who fervently want to end Assad's and the Syrian Baathists hold on power. In Jordan, King Hussein fears the PLO, Assad and, increasingly, muslim fundamentalism. And in Riyadh, the memory of the attack on Mecca is no doubt being refreshed by the challenge from Khomeini. In short, assuming Iranian success (and perhaps even without it) the next months or several years may see a general overturning of regimes in the Gulf region and beyond, both "radical" and "moderate."

To call attention to these possibilities is not to predict their happening. The Iraqis may hold against the Iranians until they get discouraged and give up -- although they are likely to keep trying for some time to come. The Shias in Iraq and elsewhere may remain in their thousand-plus year passive, largely apolitical state, perhaps because Arab-Persian hostility will dominate over co-religious feelings. The Arab regimes' tenacity of control may withstand all challenges.

However, we cannot be at all sanguine that events will develop in a favorable way to our interests. We may soon be faced with a situation in which a significant proportion of the oil supplies to the West are

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heavily influenced by Iran or by political forces hostile to the West or by forces unable or uninterested in maintaining the flow of oil.

In this situation, it is the first instinct of the Gulf Arabs to adopt a low profile, to hope that the threat will recede or, if not, that money will propitiate it. If these means work, then our interests will be served by and large. If not, then the determining factor for us is what we might be able to do to protect them.

Of the two threats that have been described above, military and political, the former is less difficult for us to affect than the latter. However, the threats are not independent. If Iraq were not threatened with Iranian invasion, the possibility of Saddam Hussein's fall or the replacement of the Baathist party by a fundamentalist regime and the politicization of its Shias probably would not be serious possibilities. If Kuwait, Saudi Arabia and the other sheikdoms can obtain military protection, their internal vulnerability is also likely to be reduced.

These governments do not see it this way -- so far. Evidently they believe that the domestic political costs of inviting outside, especially US, military protection exceeds the potential benefits. However, 1) they may soon change their minds if the Iranians win against Iraq; 2) our concern should be chiefly with our interests not theirs. On this latter point, the Arab regimes have as their principal aim staying in power; we presumably have as ours continued access to oil at as low a price as possible. These aims overlap a good deal but they are not necessarily congruent. If the situation deteriorates badly we may need to consider ways of persuading the Arabs of their need for outside protection. This protection might not have to be dominantly American at

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least on the ground. Perhaps a combination of Jordanian, Egyptian, Pakistani, even Turkish or some European forces, might be palatable. The essential point is the likely need for such protection and possibly very soon.

There is also another aim we might seek. It turns on the linkage between the threat from Iran and possibilities for movement in Arab-Israeli relations. Fear of Iran (as well as the PLO), may make the Saudis and Jordanians more willing to make concessions toward the Israeli-Palestinian "peace process" -- assuming also some "give" by the Israelis -- and part of the price of Western protection of the Arabs could be just that. In short, one should consider Gulf protection moves not only in terms of our interest in oil but also our interest in a resolution of the Palestinian issue.

Finally, consideration needs to be given to possible actions by the Soviets in the event of Iranian successes. They seem to have no good moves available in the region at the moment. Securing a more far-reaching agreement with Assad is one possibility and aiming for renewed cooperation with a post-Saddam Hussein regime in Iraq is another -- but a long-shot. The third possibility suggested by this analysis is that Iran's conflict with the Arabs may cause it to need and to seek military support from the Soviet Union; whatever incentive it has for doing this might be enhanced by the direct involvement of the "Great Satan" on behalf of the Arabs.

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